

Message Text

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PAGE 01 MTN GE 07968 01 OF 02 211137Z

53

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-10 ISO-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00

OMB-01 OIC-02 AF-06 ARA-06 NEA-10 /133 W

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R 211015Z OCT 75

FM USDEL MTN GENEVA

TO SECSTATE WASHDC 651

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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DEPT PASS STR, AGRICULTURE, H PASS CODEL

E.O. 11652: N/A

TAGS: ETRD GATT

SUBJECT: MTN SUBGROUP DAIRY PRODUCTS-OCTOBER 13-17 MEETING

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PAGE 02 MTN GE 07968 01 OF 02 211137Z

REF: A. STATE 240868; B. MTN GENEVA 5022

1. SUMMARY. THE SUBGROUP ON DAIRY PRODUCTS MET OCTOBER 13-17. THE SUBGROUP ANALYZED THE STRUCTURE AND CHARACTERISTICS OF THE WORLD DAIRY TRADE AND HAD A VERY FRANK AND INTENSIVE EXCHANGE OF VIEWS ON THE SYSTEMS OF SUPPORT AND PROTECTION FOR DAIRY IN THE PARTICIPATING COUNTRIES, INCLUDING A DISCUSSION ON THE EFFECTS OF THE GATT ARRANGEMENT CONCERNING SKIM MILK POWDER AND BUTTERFAT, AND THE OECD GENTLEMEN'S AGREEMENT ON WHOLE MILK POWDER. THE ANALYTICAL PHASE OF THE DAIRY GROUP'S WORK IS TO BE CONCLUDED AT THE BEGINNING OF ITS NEXT MEETING (SCHEDULED FOR FEBRUARY 16-20, 1976) WHICH WILL BE PRIMARILY DEVOTED TO THE SEARCH FOR MULTILATERAL SOLUTIONS IN THE SECTOR. END SUMMARY.

2. THE SUBGROUP ON DAIRY PRODUCTS BEGAN ITS MEETING ON OCTOBER 13 WITH THE ELECTION OF LUCQ (GATT SECRETARIAT) AS SUBGROUP CHAIRMAN.

3. THE GROUP THEN PROCEEDED TO AN ANALYSIS OF THE STRUCTURE AND CHARACTERISTICS OF THE WORLD DAIRY TRADE. THIS ANALYSIS WAS PRIMARILY BASED ON STATEMENTS BY MAJOR DELEGATIONS.

4. IN OPENING STATEMENT, US DEL (KOENIG) OUTLINED US VIEWS ON THE NATURE OF THE WORLD DAIRY MARKET (AS PER REFTEL A). US DEL EMPHASIZED THE EXTRAORDINARY DEGREE OF GOVERNMENT INTERVENTION IN THE PRODUCTION AND TRADE OF DAIRY PRODUCTS. HE DESCRIBED SOME OF THE FACTORS WHICH HAVE INFLUENCED THE INTERNATIONAL DAIRY TRADE, IN PARTICULAR THE CONCENTRATION OF PRODUCTION AND CONSUMPTION IN ONLY A FEW DEVELOPED COUNTRIES; THE SMALL PERCENTAGE OF PRODUCTION ENTERING INTERNATIONAL TRADE; THE SELF-SUFFICIENCY OBJECTIVE OF MAJOR IMPORTING COUNTRIES; THE JOINT PRODUCT ASPECT OF MOST DAIRY PRODUCTS; THE LINK BETWEEN BEEF AND MILK PRODUCTION; AND THE PREFERENTIAL PATTERNS IN THE WORLD DAIRY TRADE.

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PAGE 03 MTN GE 07968 01 OF 02 211137Z

5. THE EC OPENING STATEMENT WAS LIMITED TO A REFERENCE TO THEIR STATEMENT MADE AT THE JUNE MEETING (REF MTN/DP/W/2). IN A SUBSEQUENT STATEMENT THE EC DEL (JACQUOT) STRESSED THAT THE EC'S PROPOSALS PROVIDE THE NEGOTIATING FRAMEWORK TO ENSURE THE DISCIPLINE BETWEEN EXPORTERS, AND BETWEEN EXPORTERS AND IMPORTERS, THAT IS URGENTLY REQUIRED IN THIS SECTOR. NEW ZEALAND AND AUSTRALIA ALSO PRESSED FOR GREATER

DISCIPLINE AND INTERNATIONAL COOPERATION BETWEEN EXPORTERS AND IMPORTERS, BUT THOUGHT SUCH DISCIPLINES SHOULD BE EXTENDED TO COVER ALL PRODUCTS AND PROVIDE ALSO FOR BETTER ACCESS AND NOT ONLY FOR STABLE PRICE.

6. NEW ZEALAND (EASTERBROOK-SMITH) DREW THE GROUP'S ATTENTION TO: CONTROLLED CONDITIONS OF ACCESS; VOLATILITY OF PRICES FOR THE THREE PERCENT OF WORLD PRODUCTION TRADE INTERNATIONALLY; NATIONAL POLICIES WHICH INHIBIT CONSUMPTION, GENERATE SURPLUSES AND SUBSIDIZE EXPORTS; AND THE LIMITED DEGREE OF INTERNATIONAL DISCIPLINE AND COOPERATION. HE STRESSED THE THE NEGOTIATIONS SHOULD RESULT IN A STEADY EXPANSION OF TRADE UNDER SECURE TRADING CONDITIONS. TO ACHIEVE THIS, THE NEGOTIATIONS MUST LEAD TO BETTER ACCESS; A CLOSER RELATIONSHIP BETWEEN INTERNAL SUPPORT AND WORLD MARKET PRICES AT LEVELS WHICH PROMOTE CONSUMPTION; AND MORE MARKETING RESPONSIBILITY, DISCIPLINE AND COOPERATION BETWEEN EXPORTING AND IMPORTING COUNTRIES.

7. AUSTRALIA (WARWICK-SMITH) POINTED OUT THAT THE HIGH PRICE SUPPORT POLICIES--AND MEASURES THAT SUSTAIN THEM--ADOPTED IN POTENTIALLY LARGE CONSUMING MARKETS, HAVE HAD VERY COSTLY CONSEQUENCES FOR EXPORTERS IN INHIBITING THE GROWTH OF CONSUMPTION. HE CALLED UPON THE EC, US AND JAPAN TO REDUCE THEIR TRADE BARRIERS IN ORDER TO AFFORD EXPORTERS REASONABLE AND FAIR ACCESS OPPORTUNITIES. HE CONCLUDED THAT THE GROUP SHOULD DEVISE A FRAMEWORK FOR LIBERALIZING TRADE IN BASIC DAIRY PRODUCTS, AND FOR STABILIZING THE TRADE AT A HIGHER LEVEL. THIS SHOULD BE DONE NOT ONLY FOR THE BENEFIT OF EFFICIENT PRODUCERS AND EXPORTERS, BUT LIMITED OFFICIAL USE

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PAGE 04 MTN GE 07968 01 OF 02 211137Z

ALSO IN THE INTEREST OF CONSUMERS.

8. CANADIAN DEL (GIFFORD) STRESSED THE ADVANTAGES OF THEIR CENTRALLY REGULATED SUPPLY MANAGEMENT SYSTEM ON WHICH CANADA'S PRICE SUPPORT SYSTEM IS BASED. HE NOTED THAT CANADA IS ONE OF THE FEW COUNTRIES WHICH HAS ADOPTED A POLICY OF PRODUCER CORESPONSIBILITY FOR SURPLUSES.

9. THE SWISS DEL (DUNKEL) CHARACTERIZED THEIR DAIRY MARKET AND PRICE SUPPORT SYSTEM AS ONE THAT DOES NOT DISTORT INTERNATIONAL TRADE. HE SAID SWISS PRODUCTION IS ADJUSTED TO DOMESTIC AND FOREIGN DEMAND WITH IMPORTS PERMITTED AT REASONABLE LEVELS. STRUCTURAL SURPLUSES ARE THUS AVOIDED, CONSUMPTION IS NOT INHIBITED, AND

IMPORT AND EXPORT PRICES ARE AT LEVELS SUCH AS THEY DO NOT DISRUPT THE INTERNATIONAL MARKET. HE SUGGESTED THAT THE GROUP SEEK A PRAGMATIC RATHER THAN AN AMBITIOUS MULTELRATERAL SOLUTION ON THE BASIS OF EXTENDING EXISTING BILATERAL OR MULTILATERAL MINIMUM PRICE AGREEMENTS TO ALL DAIRY PRODUCTS.

10. AFTER A REVIEW OF THE OVERALL ASPECTS OF THE INTERNATIONAL DAIRY MARKETS, THE GROUP TURNED TO A THOROUGH COUNTRY-BY-COUNTRY EXAMINATION OF THE GATT SECRETARIAT'S SUMMARY OF EXPORT AND IMPORT MEASURES ON DAIRY PRODUCTS (MTN/DP/W/9). THIS EXAMINTION CONSISTED OF VERY INTENSIVE AND DETAILED QUESTIONS AND ANSWERS OF THE VARIOUS ASPECTS OF EACH COUNTRY'S TRADE AND SUPPORT SYSTEM.

11. US DEL GAVE A VERY DETAILED EXPLANATION OF US DAIRY MARKET STRUCTURE, INCLUDING A DESCRIPTION OF THE FEDERAL MILK MARKETING ORDERS, THE US PRICE SUPPORT

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PAGE 01 MTN GE 07968 02 OF 02 211210Z

53

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LIMITED OFFICIAL USE SECTION 2 OF 2 MTN GENEVA 7968

SYSTEM, US SANITARY REGULATIONS IN THE DAIRY SECTOR,
AND SECTION 22 IMPORT QUOTAS. THE US STRESSED THE
NON-INCENTIVE NATURE OF US SUPPORT PRICES WHICH ARE
BELOW PARITY AND THE CONTINUING DECLINE IN THE NUMBER
OF DAIRY FARMS AND DAIRY HERDS IN THE LAST TWO DECADES.
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PAGE 02 MTN GE 07968 02 OF 02 211210Z

NEW ZEALAND, EC, AUSTRALIA AND JAPAN ASKED MANY
TECHNICAL QUESTIONS, MOSTLY WITH REGARD TO THE
OPERATION OF THE US PRICE SUPPORT SYSTEM AND US
IMPORT QUOTAS. IN REPLY TO PRESISTENT QUESTIONING
ON THE PART OF MANY DELEGATIONS CONCERNING US
COUNTERVAILING DUTY ACTIONS ON DAIRY PRODUCTS, THE
US STATED THAT COUNTERVAILING DUTIES ARE A REACTIVE
MEASURE THAT EACH COUNTRY CAN AVOID THROUGH UNILATERAL
ACTION SIMPLY BY FOREGOING EXPORT SUBSIDIES. COUNTER-
VAILING DUTIES APPLY ONLY TO SUBSIDIZED IMPORTS UNLIKE
THE EC'S VARIABLE LEVIES WHICH APPLY TO ALL IMPORTS
REGARDLESS OF WHETHER THEY ARE SUBSDIZED OR NOT.
US DEL ALSO REFERRED TO THE EC CONCEPT OF QUOTE
DISTORTION OF EOMPETITION UNQUOTE, I.E., THE USE OF
OVERT OR COVERT SUBSIDIES IN INTRA-COMMUNITY TRADE.
THIS, US DEL RECALLED, IS A PRACTICE CONSIDERED
HIGHLY CONDEMNABLE WITHIN THE COMMUNITY. HE THEREFORE
WONDERED WHY SUCH A PRACTICE SHOULD BE PERMISSIBLE
IN INTERNATIONAL TRADE. HOWEVER, IN REPLY TO POINTED
QUESTIONS CONCERNING SPECIFIC US COUNTERVAILING
DUTY ACTION, US DEL STATED THAT IT WOULD BE HIGHLY
INAPPROPRIATE TO DISCUSS THESE ISSUES IN THE DAIRY
SUBGROUP SINCE THEY ARE THE SUBJECT OF CONTINUOUS
REVIEW AND BILATERAL CONSULTATIONS.

12. SEVERAL DELEGATIONS ASKED WHETHER US WILLINGNESS
TO PUT IMPORT RESTRICTIONS ON THE NEGOTIATING TABLE
IF OTHERS ARE WILLING TO DO THE SAME (REF B) IS MERELY

A CONDITIONAL OFFER. THE US REPLIED THAT THIS STATEMENT DOES NOT IMPLY CONDITIONALLY IN TERMS OF NEGOTIATING RECIPROCITY BUT RATHER A SELF-EVIDENT ECONOMIC PROPOSITION. IF US WERE TO OPEN UNILATERALLY ITS DAIRY MARKETS, THE RESULT WOULD NOT BE STABILITY BUT MARKET DISRUPTION. IN REPLY TO AUSTRALIAN QUESTION OF HOW US COULD RECONCILE OPPOSITION TO INTERNATIONAL PRICE FIXING WITH INTERNAL PRICE FIXING, US REPLIED THAT GATT AND OECD AGREEMENTS ON MINIMUM PRICES HAVE NOT YET BEEN TESTED AND THAT THERE IS GENUINE DOUBT (SHARED EVEN BY THE KEY PARTICIPANTS TO THOSE AGREEMENTS--AUSTRALIA AND NEW ZEALAND) ON THE DURABILITY OF THE DISCIPLINES IF PUT TO A TEST. AS REGARD LIMITED OFFICIAL USE

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PAGE 03 MTN GE 07968 02 OF 02 211210Z

SEVERAL QUESTIONS CONCERNING NEW US SANITARY REGULATIONS APPLICABLE TO THE IMPORTS OF CERTAIN DAIRY PRODUCTS, US, AFTER EXPLAINING THESE REGULATIONS IN BROAD TERMS, OFFERED TO HAVE COPIES OF THESE REGULATIONS (FEDERAL REGISTER, VOL. 40, NO. 187) CIRCULATED IN THE GROUP FOR CLARIFICATION OF THE ISSUES INVOLVED. THE REGULATIONS HAVE BEEN CIRCULATED AS MTN/DP/W/16.

13. THE CROSS EXAMINATION OF OTHER PARTICIPANTS OF THE DAIRY SUBGROUP, PARTICULARLY THAT OF THE EC, AUSTRALIA, NEW ZEALAND, CANADA AND SWITZERLAND, WAS EQUALLY INTENSIVE AND LENGTHY.

14. IN THE COURSE OF THE EXAMINATION OF THE CAP FOR DAIRY, THE EC CONCEDED THAT QUOTE REFUNDS UNQUOTE ARE INDEED EXPORT SUBSIDIES AND SHOULD BE TREATED AS SUCH. EC ALSO EXPLAINED THAT ITS READINESS TO BIND WITHIN THE FRAMEWORK OF QUOTE CONCERTED DISCIPLINE UNQUOTE A REDUCED IMPORT LEVY IF EXPORTERS WERE WILLING TO RESPECT MINIMUM EXPORT PRICES WAS RIDICULED BY MANY DELEGATIONS. EC WAS ASKED WHY A CONTRACTUAL AGREEMENT WAS NECESSARY TO ACHIEVE SUCH LEVY REDUCTION SINCE EXPORTING COUNTRIES COULD UNILATERALLY RAISE THEIR EXPORT PRICE IN ORDER TO REDUCE LEVIES. IN REPLY TO QUESTIONS OF WHETHER THEIR METHOD OF FIXING-AT-FRONTIER BORDER PRICES FOR LEVY DETERMINATION IS COMPATIBLE WITH GATT ARTICLE 7, THE EC STATED THAT VARIABLE LEVIES ARE IN THE NATURE OF SPECIFIC DUTIES AND THEREFORE COMPATIBLE WITH THIS ARTICLE.

15. AT THE END OF THIS MULTILATERAL CROSS EXAMINATION, THE GATT ARRANGEMENTS CONCERNING SKIM MILK POWDER AND BUTTERFAT AND THE OECD GENTLEMEN'S AGREEMENT ON WHOLE

MILK POWDER WERE BRIEFLY BUT INCONSLUSIVELY REVIEWED
AT THE INSISTENCE OF THE EC WHICH CONSIDERED CONSIDER-
ATION OF THESE ARRANGEMENTS AS PART OF THE WORK
PROGRAM.

16. THE GROUP AGREED TO HOLD ITS NEXT MEETING ON
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PAGE 04 MTN GE 07968 02 OF 02 211210Z

FEBURARY 16-20, 1976.

17. THE SECRETARIAT WILL SUBMIT A REPORT OF THE
SUBGROUP'S MEETING TO THE GROUP AGRICULTURE. WALKER

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Draft Date: 21 OCT 1975
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Disposition Approved on Date:
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Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
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